

USACE Suppl 1
to AR 11-7

DEPARTMENT OF THE ARMY
U.S. Army Corps of Engineers
Washington, D.C. 20314-1000

CEAO
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Army Programs
INTERNAL REVIEW AND
AUDIT COMPLIANCE PROGRAM

Issue of further supplements to this regulation by subordinate commands is prohibited unless prior approval is obtained from HQUSACE (CEAO) Washington, D.C. 20314-1000. If approved supplements are issued, Major Subordinate Commands, Laboratories, and Field Operating Activities (FOA) will furnish one copy each to HQUSACE (CEAO) Washington, DC 20314-1000; District Commands will furnish required copies to appropriate MSC.

AR 11-7, 16 July 1989, is supplemented as follows:

Page 3, paragraph 1-4, Responsibilities. Add subparagraphs (a) and (b) to subparagraph e(1):

(a) Major Command QA. The Audit Office, Headquarters, US Army Corps of Engineers (HQUSACE) will perform periodic Quality Assurance (QA) reviews of each MSC and the Waterways Experiment Station (WES). At a minimum the reviews will be performed on-site once every three years with the potential for an interim review or desk evaluation based on the availability of funds and staff. The primary purposes of these reviews will be to evaluate the adequacy of program direction, supervision, and staffing; review compliance with Government Auditing Standards and prescribed policies and procedures; and furnish advice and assistance in connection with any auditing, administrative or internal problems. The checklist at

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Appendix A will be used to conduct the QA reviews. A draft report covering the review results will be issued within 60 days to the Chief, Internal Review Audit Compliance Office of the MSC or WES. The report will contain sufficient information to show purpose; scope, including the number of projects/reports examined; summary of observations; results of review for each major area covered as shown in the checklist; and recommendations. The Chief, IRAC Office will provide written comments on the report within 30 days to HQUSACE (CEAO) Washington DC 20314-1000. A final report will be issued within 30 days after receipt of comments to the commander of the MSC or WES commander/director which will include their IRAC Office comments and CEOA evaluation. If there are areas of disagreement, the MSC or WES/commander/ director will be required to submit a response to the final report setting forth the MSC or WES position on the issues in dispute. If there are still areas of disagreement, CEOA will forward the report and MSC or WES comments to the Deputy Commander, HQUSACE for final decision.

(b) Major Subordinate Command Quality Assurance Reviews. The MSC IRAC Office will perform staff surveillance over the district IRAC activities to evaluate timely and effective accomplishment of the mission; review compliance with prescribed professional audit procedures; and provide staff advice and assistance. This will be accomplished by annual on-site Quality Assurance (QA) reviews of local program management and audit work being performed and interim visits as necessary based upon local circumstances. The QA review schedule will be shown in Section 5 of the annual plan required by paragraph 3-2 below. A draft report will be issued to the district chief, IRAC Office within 60 days documenting the results of the annual QA review. The report will contain sufficient information to show purpose; scope, including the number of projects/reports examined; summary of observations; results of review for each major area covered as shown in the Checklist; and recommendations. The district chief, IRAC Office will provide written comments on the report within 30 days to the MSC IRAC Office. A final report will be issued within 30 days after receipt of comments to the district commander which will include their IRAC Office comments and the MSC evaluation. If there are areas of disagreement, the district commander will be required to submit a response to the final report setting forth the district's position on the issues in dispute. If there are still areas of disagreement, the MSC IRAC Office will forward the report and district comments to the MSC commander for final decision. When the

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reply process is completed, the MSC IRAC Office will forward a copy of the final report, together with the district response and MSC commander's decision if applicable, to HQUSACE (CEAO) Washington DC 20314-1000. The QA review reports will also be used to keep the MSC Commander informed as to the effectiveness of the district IRAC programs. The QA reviews will be performed in accordance with above-procedures and therefore will not be done as part of the MSC command inspection process. The prescribed QA reviews should alleviate the need for command inspection coverage of the district IRAC activities.

Page 3, paragraph 1-4, Responsibilities. Add the following to subparagraph e(6):

The WES will provide internal review support to USACE laboratories.

Page 4, paragraph 1-6, Internal Review Concept. Add subparagraph b(4) after subparagraph b(3).

(4) Provide an independent capability to assist in resolving problems requiring limited research and quick solutions.

Page 4, paragraph 2-7, Training. Add the following:

An annual training plan should be developed for each auditor to supplement formal education and previous experience. This program should be sufficient to ensure that each auditor meets the continuing education requirements of the Government Auditing Standards. This program should utilize courses offered by the Corps; Department of the Army; other Government agencies such as the Office of Personnel Management and the Government Audit Training Institute; and nongovernment facilities. Priority will be given to USAAA training courses. It is essential that lower grade auditors receive appropriate training in fundamental audit and internal review techniques, including the preparation of review guides, development of findings, preparation of working papers, and report writing. Experience can be gained by developmental exposure during the actual performance of internal reviews as a closely supervised trainee. Such assignments should be part of a formal trainee development plan. As career development progresses, the auditor should receive training in audit management, advanced

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audit techniques, and use of microcomputers. A record should be maintained for each auditor documenting past courses by course title, length (days or hours) and completion date (month/year). Both HQUSACE and the MSC are responsible for monitoring the training accomplishments of the subordinate internal review activities. A copy of the training record for each auditor showing training completed during the previous year will be forwarded through command channels to CEA0 with the annual plan showing workload accomplished for the year.

Page 5, paragraph 2-10, Guidance. Add subparagraph f and g after subparagraph e.

f. The IRAC element will not establish accounting policy; perform quarterly imprest fund cash counts; perform contract audits; augment operational elements; or accomplish operational tasks. Examples of the latter include making detailed verifications of the accuracy and validity of documents and performing contract administration activities. The above tasks are subject to internal review evaluation if there are known or suspected problems or if they are a part of a function in which a review is being made.

g. The Chief, IRAC at all command levels is encouraged to provide consulting assistance to help managers evaluate and improve internal management controls. The auditor can advise managers on how to perform the internal management control evaluations as required by AR 11-2 but the auditor will not perform these prescribed periodic evaluations on regular basis because they are management's responsibility. The auditor should forward information to the internal management control administrator concerning known or suspected material weaknesses as identified in internal review and external audit reports. This will assist the commander in determining material weaknesses to be reported in the annual statement required by the Federal Managers Financial Integrity Act. Management is responsible for correcting material weaknesses and the validation. Validation can be accomplished by Command Inspections, staff visits, quality assurance visits, etc. IRAC should only be used to validate those weaknesses that the Commander or Deputy Commander determines to warrant such independent testing .

Page 6, paragraph 3-2, Guidance on Annual Internal Review and Audit Compliance Plan. Add the following to subparagraph a(1):

The auditable entity file will be updated as necessary to show the areas covered by external audits and internal reviews. The

IRAC Office will review the file annually to assure that it properly identifies the organizations, programs, activities and functions subject to audit. During the annual review, the IRAC

office will conduct sufficient research to identify the major missions and projects to be accomplished by their respective districts and labs during the next year. The IRAC office will use the auditable entity file and information gathered during the annual review to prepare annual plans and to support resource requirements.

Page 6, paragraph 3-2, Guidance on Annual Internal Review and Audit Compliance Plan. Add the following to subparagraph a(2):

The Commander will sign the written request for staff input concerning possible review areas. This solicitation will also encourage staff members to request internal review assistance during the year as known or potential problem areas are identified. Suggested formats for the solicitation letter and audit suggestions are shown at Appendix B.

Page 6, paragraph 3-2, Guidance on Annual Internal Review and Audit Compliance Plan. Add subparagraphs (7) and (8) after subparagraph a(6).

(7) Directed/Suggested Internal Reviews. HQUSACE may periodically direct command-wide internal reviews of known or suspected trouble areas. Suggestions may also be made of possible review areas.

(8) USACE Deficiency Trends. HQUSACE will periodically publish a deficiency trend memorandum to alert MSC commanders of possible problem areas. Assessment factors will be provided so the Commander can readily determine whether a command weakness exists. If the commander identifies weaknesses, internal reviews should be performed to determine the underlying causes contributing to these conditions and to recommend corrective action.

Page 6, paragraph 3-2, Guidance on Annual Internal Review and Audit Compliance Plan. Add the following to subparagraph b:

Each USACE IRAC office will prepare an annual plan on a fiscal year basis in accordance with the format at Appendix C. The plan will be developed based upon high risk areas from the auditable entity file; current suggestions from functional

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managers; prior year deferred audits which are still valid; and IRAC suggestions based upon higher authority requirements, known material weaknesses, and knowledge of local areas, concerns and major activities. Internal reviews will be scheduled in both mission and support areas to the extent resources permit, with priority given to mission and high risk areas. Mission areas are defined as those functions performed by the technical staffs shown on the organization charts, e.g., Planning, Engineering, Construction, Operations, Real Estate, Contracting, Program/Project Management and Emergency Management. If the program requirements, as identified above, exceed days available, the deferred audits and estimated work-days will be listed in priority order and appended to the annual plan. The annual plan will be revised semi-annually as necessary to reflect actual work-days expended in each area during the preceding quarters and the projected workload for the remainder of the calendar year. The IRAC Office will review the projected workload with the commander and/or principal deputy semi-annually and make adjustments as necessary to reflect current command priorities.

Page 6, paragraph 3-2, Guidance on Annual Internal Review and Audit Compliance Plan. Add the following to subparagraph c:

The Chief, IRAC Office will meet with the commander and/or principal deputy commander to review and discuss the proposed annual plan prior to approval to assure that it will help the commander meet the Corps' objectives of providing quality service to our customers. After making any necessary adjustments, the annual IRAC plan will be forwarded to the commander for approval. A copy of the approved annual plan will be provided to staff elements of the command along with feedback on the disposition of their audit suggestions.

Page 6, paragraph 3-2, Guidance on Annual Internal Review and Audit Compliance Plan. Add the following to subparagraph d:

A copy of the approved annual plan for the current fiscal year and a copy of the annual plan showing accomplished versus estimated workload for the preceding year will be submitted through command channels to HQUSACE (CEAO). The MSC IRAC offices will review the district plans for the current year prior to submittal to CEAO and provide feedback to the districts if deficiencies are noted or proper procedures are not followed. The MSC IRAC offices will submit the district plans, a copy of the feedback, and the MSC IRAC plan to HQUSACE

(CEAO). CEOA will review and evaluate the current year MSC plans, along with WES's plan which is to be submitted directly to CEOA, and provide feedback, as needed, to the applicable subordinate organization. The semi-annual revisions will also be submitted through command channels to HQUSACE (CEAO). The annual plan and semi-annual revisions will be forwarded within 30 calendar days after the beginning of each fiscal year or interim six-month period.

Page 6, paragraph 4-1, Performing internal audits. Add the following to subparagraph a:

A formal announcement memorandum will be issued prior to the entrance conference for internal audits. The announcement memorandum will communicate the fact that a review is about to begin, will contain the tentative audit objectives, and will confirm the arrangements for the entrance conference. The announcement memorandum is not required for troubleshooting or quick reaction audits requested by management. However, an entrance conference will still be held to discuss the audit plans and objectives.

Page 6, paragraph 4-1, Performing internal audits. Add the following to subparagraph b:

Internal review survey requirements and procedures are included at Appendix D.

Page 6, paragraph 4-1, Performing internal audits. Add the following to subparagraph d:

As a minimum, the audit guide will contain the following sections: Background, References, Objectives, and Review Areas. Under each major review area, the guide will show the specific steps required to accomplish that portion of the review. The Chief IRAC will approve the guide prior to initiation of the review. This approval will be documented on the audit guide to be included in the working paper file. The MSC auditor will evaluate the adequacy of audit guides prepared by the local IRAC office and document the results of this assessment during the annual quality assurance reviews.

Page 6, paragraph 4-1, Performing internal audits. Add subparagraphs (1) and (2) after subparagraph e:

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(1) During the performance of internal reviews, the auditor should constantly be on the alert for possibility of fraudulent or other unlawful activity. Accordingly, the auditor should determine that a system of checks and balances is in place which will disclose irregularities and improprieties. Also the audit should include specific audit steps designed to provide reasonable assurance of detecting abuse or illegal acts. When fraud or other unlawful activity is suspected, the auditor should develop all factual information using generally accepted auditing procedures but will not assume the responsibility of investigative personnel. If audit techniques and consultation with counsel do not resolve the suspicion of wrongdoing, the auditor shall prepare a letter report to the commander documenting the circumstances and related facts. The report will be discussed with the Commander, Counsel and Security and Law Enforcement Officer, with copies to the MSC auditor and CEAO. The Chief, IRAC Office, should monitor the action to ensure that the matter is satisfactorily resolved. All correspondence related to the suspected fraud or other unlawful activity should be carefully protected with "FOR OFFICIAL USE ONLY" markings to avoid unnecessary disclosure.

(2) During the course of an audit, working papers will be developed in a complete and accurate manner to document work performed and to support the findings and recommendations in the audit report. Techniques and standards for working paper preparation are included at Appendix E.

Page 6, paragraph 4-1, Performing internal audits. Add the following to subparagraph g:

Format and guidelines for preparation of standard internal review reports are included at Appendix F. In the event the audit discloses satisfactory conditions or only minor deficiencies, a letter report may be issued as shown at Appendix G.

Page 6, paragraph 4-1, Performing internal audits. Add subparagraphs (1), (2), (3), (4) and (5) after subparagraph g.

(1) The IRAC Chief will forward copies of the draft report or portions thereof to responsible operating officials for comment on the findings and recommendations. The replies to internal review reports must clearly state the operating official's position on the recommendations, i.e., concurrence and corrective actions taken or planned with target dates for implementation or nonconcurrence with reasons therefor. The Chief IRAC

will review the comments and attempt to resolve any nonconcurrency or inadequate replies where possible. The management comments (and audit rebuttal if necessary) will be incorporated into the final report immediately following each recommendation. If the management comments are lengthy, they may be summarized in the report and, if requested, a copy attached. The final report will then be forwarded to the commander for review and disposition in accordance with subparagraph h of the basic regulations as supplemented below.

(2) The suggested time frame for obtaining management comments is 30 days. The final report should be issued without management comments if the comments are not received within 45 days from the date of the draft report. Also, there may be other instances where it is desirable or necessary to issue a report without operating officials' comments. The reason for such action should be briefly stated in the transmittal letter to the commander. An expanded discussion of the situation should be included in the "Management Response" paragraph of the report and "Management Comments" section of the finding(s).

(3) If the report contains repeat findings, i.e., conditions similar to those previously reported within the last five years, they should be highlighted in the transmittal letter to the commander. They should also be noted in the "Management Response" and "Action on Prior Reports" sections of the report in order to highlight the need for corrective action in these areas. The major subordinate command auditor should determine that the district command is taking appropriate action on repeat findings during the annual quality assurance reviews.

(4) The potential monetary and nonmonetary benefits for each finding should be explained and summarized in the report. If there are potential monetary benefits, a schedule of such benefits should be attached to the report (Example at Appendix H).

(5) The pertinent audit report information (excluding follow-up reviews) will be transmitted via electronic mail to CEAO-I for entry into the Internal Review Audit Database (IRAD) system. This information will be furnished within ten (10) days after issuance of the final report.

(6) Upon completion of internal audits, i.e. excluding troubleshooting and follow-up reviews, the IRAC Office will send a copy of the Post Audit Survey questionnaire shown in

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Appendix I to the audited organization(s). The purpose of the questionnaire is to obtain feedback on the quality of the audit work performed to assist the Chief, IRAC Office in assessing strengths and identifying areas requiring improvement.

(7) The internal review report and related files should be retained for five years in accordance with the provisions of AR 25-400-2 (file number 11-7). Permanent working paper files may be retained as long as necessary under file number 36.

Page 6, paragraph 4-1, Performing internal audits. Add the following to subparagraph h:

The final report will be furnished to the local commander with an oral briefing or a transmittal memorandum summarizing what was reviewed, the results of the review, the management position, and the auditors' evaluation of management's response. At the time of the briefing or simultaneous with the transmittal memorandum, the IRAC office will provide a proposed memorandum for the Commander's signature advising the responsible manager(s) of the final decision on the report, i.e., the proposed corrective action is satisfactory and should be implemented or if not, the actions that should be taken to correct the problems noted in the report. A sample transmittal memorandum and action memorandum are included with the report format at Appendix F. The disposition of internal review reports must be accomplished within six months of the date of the final report.

Page 6, paragraph 4-2, Troubleshooting. Add the following:

The IRAC office may perform troubleshooting audits for management if the requests meet the criteria in paragraph 10-3, DA Internal Review and Audit Compliance Manual. These audits will be performed on an expedited basis using normal procedures, i.e., limited survey, brief review guide and documentation of work performed and conclusions. A letter may be issued directly to the requesting official with a request for comments on actions to be taken on the recommendations. The letter report would not be subject to the resolution or follow-up process. However, when accepting the requests for special audits, the Chief, IRAC Office should advise the requesting official that normal reporting procedures will be used if considered appropriate.

Add new paragraph as follows:

Page 6, paragraph 4-3, Consultant services.

The IRAC office may provide consultant services to management to assist in resolving problems requiring limited research and a quick solution. These efforts will not be considered an audit and therefore are not subject to the auditing standards and procedures. The results and advice provided will be qualified accordingly. However; in the event that limited research discloses the problem is more serious or complex than anticipated and an audit is determined necessary, the auditor will terminate the research effort and recommend to the requester that a troubleshooting or internal audit be performed in accordance with prescribed procedures. The time spent in providing consultant services to management should not exceed 10 percent of the direct auditor days available in a fiscal year. The advice and assistance provided will be documented by a memorandum to the requesting official or a memorandum for the file as appropriate.

Page 7, paragraph 5-2, Follow-up on findings and recommendations. Add the following to subparagraph a:

IRAC Offices will perform follow-up reviews of GAO, IG DoD, USAAA, CEAO-I and internal review reports addressed to their Command. The follow-up reviews will be conducted in accordance with the guidelines in basic regulation, AR 36-2 and the DA Internal Review and Audit Compliance Manual. On-site follow-up reviews will be conducted on significant findings as defined in paragraph 1-4i of AR 36-2. For findings not meeting this criteria, the follow-up reviews will be limited to desk reviews of the documentation provided by cognizant managers to verify that all agreed upon corrective actions have been completed.

Page 7, paragraph 5-2, Follow-up on findings and recommendations. Add subparagraph c after subparagraph b:

The auditor will properly document the follow-up work performed and conclusions in the audit file. If a desk review has been performed and the auditor concludes that effective corrective action has been taken on all recommendations, based upon supporting documentation in the working papers, no report is required. A follow-up report will be prepared for all on-site follow-up reviews and desk reviews where effective corrective action has not been taken on all of the recommendations. The

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report will show the original finding, recommendation and management response; the follow-up results; management comments on the follow-up results (if necessary); and the internal review evaluation of such comments (if applicable). Standards for report preparation are at Appendix J.

Page 7, paragraph 5-3, Follow-up system. Add subparagraphs (1), (2) and (3) after subparagraph a:

(1) The IRAC office will maintain a tracking and follow-up system for the reports noted in paragraph 5-2. The tracking system will include the information required by this regulation and AR 36-2. The auditor will update the system on a quarterly basis by requiring the responsible activity to provide the current status of ongoing actions and revised target dates if appropriate.

(2) The reports and recommendations will be recorded as completed when managers have provided explicit written confirmation and documentation that agreed-upon corrective actions have been completed. The initial follow-up will be performed within 120 days after completion of actions on the report in accordance with procedures in paragraph 5-2 above. When the follow-up discloses that corrective actions are inadequate, a written directive will be prepared for signature by the commander or his designee. This directive will require the responsible activity to take immediate corrective action, establish milestone dates (if necessary), and report to IRAC every 30 days until all corrective actions have been completed. The status in the tracking system will be changed for those corrective actions previously reported as complete but found to be incomplete as a result of the follow-up review.

(3) A second and last follow-up will be made upon official notification from the audited activity that all corrective actions are complete and audit recommendations have been complied with. If the second follow-up discloses that corrective actions are still inadequate, a final follow-up report will be issued to the commander. Once again the status of the incomplete corrective actions will be tracked in the system until management provides written confirmation and documentation that actions have been completed. At this time, the report and recommendation(s) will be recorded as complete with no further follow-up effort.

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Page 7, paragraph 5-3, Follow-up systems. Add the following to subparagraph c:

The IRAC office will provide quarterly reports to the commander showing the status of unimplemented audit recommendations. The MSC auditor will review the summary report during QA reviews; attempt to expedite completion of overdue corrective actions; and report excessive delays in implementing recommendations to the MSC.

FOR THE COMMANDER:



R.C. JOHNS
Colonel, Chief of Staff
Corps of Engineers

11 Appendices

APP A - Quality Assurance Checklist
APP B - Audit Suggestion Format
APP C - Annual IRAC Plan Format
APP D - Survey Procedures
APP E - Standards for I/R Working Papers
APP F - I/R Standard Report Format
APP G - I/R Letter Report Format
APP H - Potential Monetary Benefits Format
APP I - Post Audit Survey
APP J - Follow-up Report Format